



**STATE OF MARYLAND  
OFFICE OF THE ATTORNEY GENERAL**

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# **2018 ANNUAL REPORT**

**OF THE  
HOME BUILDER REGISTRATION UNIT  
CONSUMER PROTECTION DIVISION  
OFFICE OF THE ATTORNEY GENERAL**

**SUBMITTED TO THE  
GOVERNOR AND GENERAL ASSEMBLY  
OF MARYLAND**

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## I. **EXECUTIVE SUMMARY**

The Maryland Home Builder Registration Act (“the Act” or “HBRA”) was enacted by the General Assembly in the 2000 Session and became effective January 1, 2001. The HBRA protects new home buyers by requiring builders to register with the State and by providing an enforcement mechanism that allows the State to prevent builders with a bad track record from continuing to build in Maryland.<sup>1</sup> During the 2008 Session, the General Assembly enacted legislation to provide additional protections for home buyers, establishing a registration requirement for sales representatives for Maryland home builders, and a Home Builder Guaranty Fund.

The Home Builder Registration Unit (“Unit” or “HBRU”) of the Consumer Protection Division of the Office of the Attorney General was created by the HBRA to administer and enforce the Act.<sup>2</sup> The Act requires that the Consumer Protection Division make an annual report of its activities to the Governor and General Assembly. This is the report for Fiscal Year 2018.

The report focuses on the following areas:

- **Registration of Builders:** 2,433 builders were registered as of June 30, 2018. 221 of those builders registered for the first time between July 1, 2017 and June 30, 2018. The number of registered builders has steadily increased over the past two fiscal years, reflecting a 7% increase in fiscal year 2017 and a 4% increase in fiscal year 2018.
- **Registration Renewal:** From July 1, 2017 to June 30, 2018, the Unit mailed renewal notices to 1,233 builders whose registrations were due to expire by June 1, 2018. 979 of those builders renewed their registration as of June 30, 2018.
- **Law Enforcement:** The Unit opened 26 investigations between July 1, 2017 and June 30, 2018, after receiving reports of unregistered building or violations of the Home Builder Registration Act, the Consumer Protection Act, the New Home Warranties Act, or violations of the laws governing deposits on new homes. 9 of the investigations resulted in settlements; 1 resulted in an enforcement action to deny registration; and 16 remain

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<sup>1</sup> Earlier laws provided partial protections for home buyers by focusing on protection of the buyer’s deposit, required contract provisions and disclosures, and prescribed terms of non-mandatory home warranty security plans. See New Home Deposits Act, Md. Code Ann., Real Property §10-301 through § 10-306, Custom Home Protection Act, Md. Code Ann., Real Property §10-501 through § 10-509, and New Home Warranties Act, Md. Code Ann., Real Property §10-601 through § 10-610.

<sup>2</sup> Montgomery County and Prince George’s County have varying forms of builder licensing or registration.

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under continuing investigation as of June 30, 2018. The Unit receives information from many sources, including consumers, other builders, subcontractors, and permit offices.

● **Education of Builders and Consumers:** As of June 30, 2018, the Unit had distributed a total of 272,948 copies of *BUYING A NEW HOME - Consumer Rights and Remedies Under Maryland Law*; and maintained and updated its website – <http://www.marylandattorneygeneral.gov/Pages/CPD/Homebuilder/default.aspx> – to provide information to the public, consumers, builders, and permit offices about registered builders, building laws, and home building.

● **Coordination with Local Building Permit Offices:** The Unit continues to coordinate with local building permit offices to ensure that unregistered builders cannot obtain building permits and that builders with unresolved building code violations are reported to the Unit. Lists of registered builders are routinely updated and publicly available on the Unit's website. The Unit also coordinates with local permit offices concerning the payment of fees by builders to fund the Home Builder Guaranty Fund.

● **Evaluation of Consumer and Builder Dispute Resolution:** The Division's Mediation Unit handled 106 consumer complaints involving 88 home builders between July 1, 2017 and June 30, 2018. The overwhelming majority of the complaints concerned claims about construction defects or incomplete construction.

● **Warranty Programs:** The Unit monitors information from New Home Warranty Security Plans concerning their operation and claims experience to ensure the plans are continuing to meet the requirements of the new home warranty law.

● **Home Builder Sales Representatives:** Sales representatives for home builders are required to register with the Unit. A home builder sales representative is an individual employed by a home builder as the home builder's representative to consumers regarding the purchase of a new home from the home builder. Sales representatives are required to complete a registration form and pay a \$300 registration fee for a 2-year registration. As of July 1, 2018, there were 752 registered sales representatives who worked for 191 builders.

● **Home Builder Guaranty Fund:** The General Assembly created a Home Builder Guaranty Fund to protect buyers of new homes who purchase a new home from a registered home builder and suffer an actual loss as the result of:

- Incomplete construction of a new home;
- Breach of an express or implied warranty;
- Failure to meet construction standards or guidelines; or
- Failure to return a deposit or other payment to which the home buyer is entitled.

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The Guaranty Fund applies only to contracts entered into after January 1, 2009. The Division is required to maintain the Guaranty Fund at a level of at least \$1,000,000. The Guaranty Fund is funded through a \$50 fee to be paid by home builders to the permit office together with an application for a permit for a new home. The permit offices remit the fees to the Division monthly and may retain an administrative fee of not more than 2 percent. From July 1, 2017 until June 30, 2018, there were 97 claims filed with the Guaranty Fund by buyers who alleged an actual loss as the result of a new home purchase agreement.

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## II. **REGISTRATION OF BUILDERS**

### A. **THE HOME BUILDER REGISTRATION UNIT**

A central requirement of the HBRA is that all new home builders in Maryland, except for those home builders that build exclusively in Montgomery County, register with the Unit. The Home Builder Registration Unit was created by the HBRA to administer and enforce the Act. A special fund was created to fund the Unit's activities, which is paid for through the collection of registration fees. The HBRA sets the initial registration fee paid by builders at \$800 for a two-year registration. The Act further provides for renewal fees for an additional two-year period of \$400 for builders who were issued 10 or fewer building permits during the preceding year; \$800 for builders who were issued 11 to 74 permits during the preceding year; and \$1,200 for builders who were issued 75 or more permits during the preceding year. HBRA §4.5-203, §4.5-303, §4.5-305. The Division's costs for the Unit include salary, benefits, and administrative costs for a ten person unit;<sup>3</sup> production and distribution of the consumer education pamphlet; continued maintenance of the website and data systems; and perhaps most importantly, enforcement costs. The Unit's ten positions include: a Director/Assistant Attorney General, an Assistant Attorney General who handles cases involving enforcement actions against home builders, a Staff Attorney who is responsible for cases involving the Home Builder Guaranty Fund, an Administrator who oversees registration of builders and sales representatives, an Administrator who oversees new home warranty security plans and builder compliance with deposit protection laws, an Administrator who oversees the administration of the Home Builder Guaranty Fund, two Investigators, and two Secretaries.

### B. **BUILDER REGISTRATION AND RENEWAL UNDER THE HBRA**

The Act establishes a registration procedure that requires builders to complete a registration form and pay the required registration fee. The Act does not provide for competency testing. The Unit has implemented the registration requirements with the objective of making registration an easy and quick procedure.

To register, builders are required to complete an application form, provide information about the principals of the company and legal proceedings involving the builder, and pay the registration fee. Each builder's registration lasts two years and expires on one of four quarterly dates based upon the date the builder initially registered: March 1, June 1, September 1, or December 1. Having registrations expire quarterly makes it easier for builders, permit offices, consumers and the Unit to keep track of whether builders are currently registered and when registrations expire. The Unit mails a renewal notice to the builder's last known address at least 60 days before the registration expires.

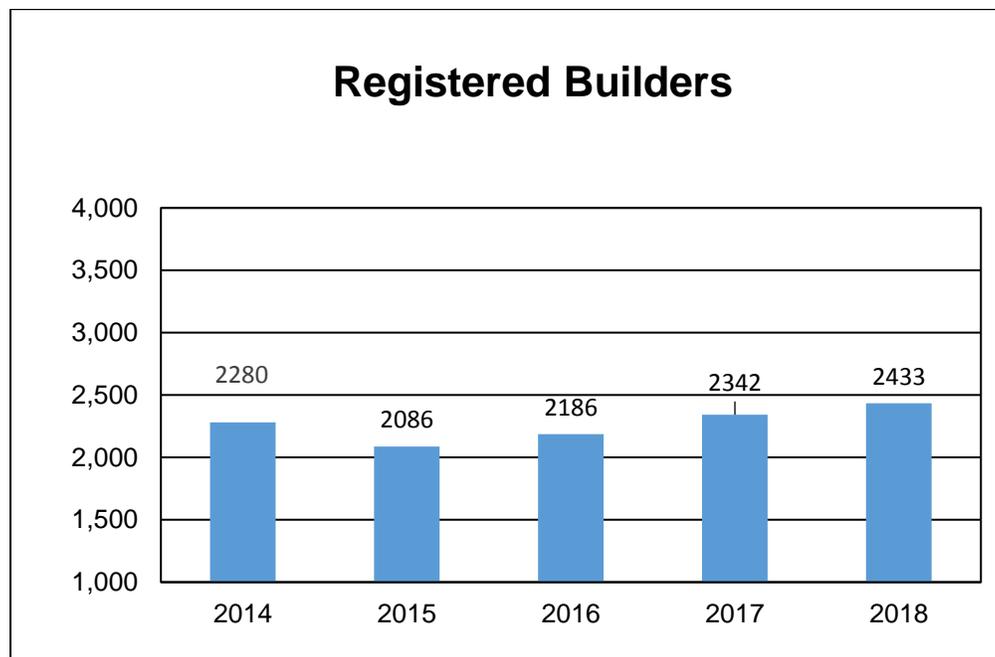
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<sup>3</sup> Two of the positions have been vacant for over one year.

The application provides the Unit with general information about the company or entity that is registering. It also provides the Unit with information about each "principal" of the company, which the HBRA defines to be persons with at least a 10% ownership interest, and directors, partners, officers and managers of the company. One of the purposes of the Home Builder Registration Act is to track builders who dissolve entities without meeting their financial obligations and then begin building again under a new company name. Such builders may be subject to denial or revocation of their registration under HBRA §4.5-308. To achieve this goal, the Unit must gather information from the applicants about the principals who own and operate building companies.

As of June 30, 2018, 2,433 home builders were registered with the Unit. 221 new builders registered with the Unit between July 1, 2017 and June 30, 2018.

The following chart shows the number of registered builders reported in the Annual Report since 2014:



Source: HBRU

In the past year, the Unit mailed renewal notices to the 1,233 builders that registered under the HBRA whose initial two year registrations were due to expire between September 1, 2017 and June 1, 2018. As of June 30, 2018, 979 of these builders have been approved for renewal. 252 builders did not renew their registrations, either notifying the Unit that they were not renewing, failing to send a renewal request, or otherwise notifying the Unit of their intentions; 1 builder was suspended; and, 1 builder's application is under review. Builders are able to register and renew their registrations

over the Internet. Of the 979 builders that have been renewed, 953 (97%) renewed their registrations over the Internet.

### C. WHO ARE MARYLAND'S BUILDERS?

The HBRA defines "home builder" and "new home" broadly to ensure that all new home builders in Maryland must be registered. HBRA §4.5-101(g) and (m). The exceptions to the HBRA are narrowly drawn.<sup>4</sup> Information provided by builders in the registration process, combined with other available data, provides the following profile of Maryland Builders:

- **Number of Builders:** There were 2,433 registered builders in Maryland as of June 30, 2018. 221 of those builders registered for the first time between July 1, 2017 and June 30, 2018 and the Unit continues to receive new applications monthly.
- **Type of Construction:** The vast majority of Maryland's builders report building either custom homes (54%) or other new homes (32%). Another 6% report building condominiums, 5% report building industrialized buildings, and 3% report selling or installing mobile homes.
- **Form of Business:** 44% of Maryland's builders use corporations as their form of business organization. Another 43% are limited liability companies (LLCs), 11% are sole proprietorships, and 2% are partnerships.
- **Location of Builders and Housing Construction:** Not surprisingly, the majority of Maryland's builders continue to be located in the region of Maryland that is experiencing the most new home building activity, as measured by the number of single family housing permits issued: 43.5% of building permits for single family construction were issued in the Baltimore Region, where 37.7% of Maryland's builders are headquartered, and 38.9% of building permits for single family construction were issued in the Suburban Washington Region, where 16.6% of Maryland's builders are headquartered. 3.7% of building permits were issued in the Eastern Shore Regions, where 17.5% of Maryland's builders are headquartered. The Southern Region had 12% of the building permits issued and provided headquarters for 9.8% of Maryland's builders. The Western Region had 1.9% of building permits and provided headquarters for 6.9% of Maryland's builders. 11.5% of builders had headquarters that were out of state.

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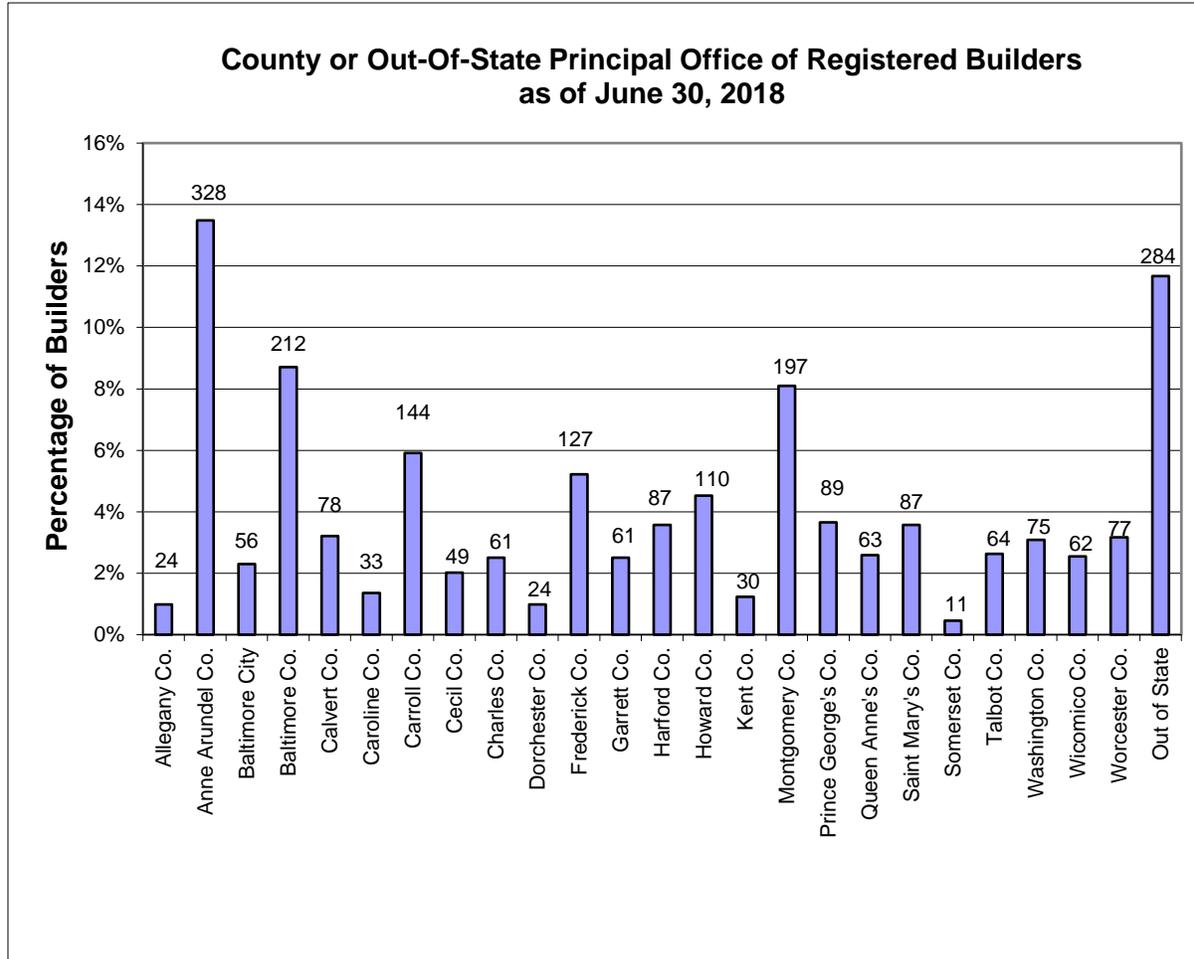
<sup>4</sup> The HBRA excludes from registration employees, subcontractors and vendors of a registered home builder; the manufacturer of industrialized buildings unless it also installs the building; real estate developers who do not also contract for or construct homes; construction financiers; and builders who build solely in Montgomery County. HBRA §4.5-101(g)(3). Landowners who obtain building permits in their own name and who directly perform the construction on their own land for their own use are also exempted. HBRA §4.5-601.

The following chart shows the headquarters of builders in each region, the number of single family housing permits issued in each region from July 1, 2017 through June 30, 2018, and the percentage of the total number of single family housing permits issued in Maryland in each region during that period.

Region	Percentage of Builders With Headquarters in Region	Number of Permits Issued in Region (7/1/17- 6/30/18)	Percentage of State-wide Permits Issued in Region
<b>Baltimore Region</b> (Anne Arundel, Baltimore City, Baltimore County, Carroll, Harford, Howard)	37.7%	7,452	43.5%
<b>Suburban Washington Region</b> (Frederick, Montgomery, Prince George's)	16.6%	6,660	38.9%
<b>Upper Eastern Shore Region</b> (Caroline, Cecil, Kent, Queen Anne's, Talbot)	10%	454	2.7%
<b>Southern Region</b> (Calvert, Charles, St. Mary's)	9.8%	2,060	12%
<b>Lower Eastern Shore Region</b> (Dorchester, Somerset, Wicomico, Worcester)	7.5%	170	1%
<b>Western Region</b> (Allegany, Garrett, Washington)	6.9%	329	1.9%
<b>Out of State</b> (California, Connecticut, Delaware, Georgia, Illinois, New Hampshire, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, Washington, D.C., West Virginia)	11.5%		
Totals	100.0%	17,125	100%

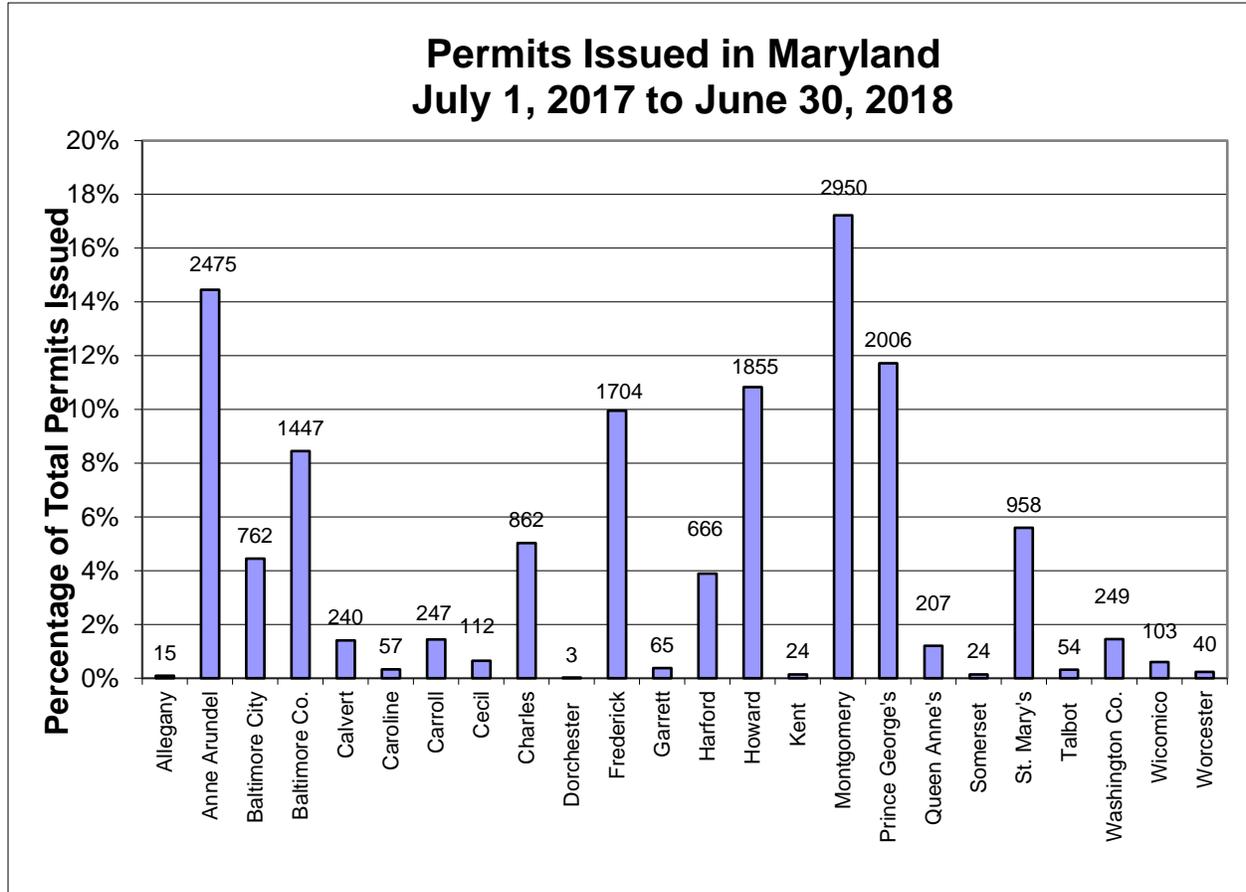
Source: HBRU and Md. Dept. of Planning, and Allegany, Caroline, Dorchester, Kent, & Talbot County Permit Offices for Single Family Permits Issued July 1, 2017 through June 30, 2018.

The following graph shows the breakdown of builders' headquarters for each county and how many are out of state:



Source: HBRU

The following chart shows the number of permits issued in each county from July 1, 2017 through June 30, 2018:



Source: HBRU and Md. Dept. of Planning, and Allegany, Caroline, Dorchester, Kent, & Talbot County Permit Offices for Single Family Permits Issued July 1, 2017 through June 30, 2018.

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### III. **HOME BUILDER SALES REPRESENTATIVES**

Effective October 1, 2008, sales representatives for home builders were required to register with the Home Builder Registration Unit. A home builder sales representative is an individual employed by a home builder as the home builder's representative to consumers regarding the purchase of a new home from the home builder. Sales representatives are required to complete a registration form and pay a \$300 registration fee for a 2-year registration.

As of July 1, 2018, there were 752 registered sales representatives who worked for 191 builders. 97 new sales representatives registered with the Unit between July 1, 2017 and June 30, 2018. A registered sales representative may be employed by more than one builder. The Unit issues a Registration Certificate to a registered sales representative, who is required to conspicuously display the Certificate at the location where the sales representative primarily works.

Additionally, home builders are required to disclose to prospective home buyers that the sales representative works for the home builder and that, while the sales representative may assist the buyer in purchasing the property, the sales representative's duty of loyalty is to the home builder.

### IV. **LAW ENFORCEMENT**

The Home Builder Registration Act provides an enforcement mechanism with the objectives of (1) keeping unregistered builders from building in Maryland and (2) preventing registered builders who establish a bad track record or engage in violations of the law from continuing to build in Maryland.

To accomplish these objectives, the HBRA prohibits unregistered builders from building and authorizes the Unit to use civil administrative proceedings to seek a cease and desist order and a civil penalty of up to \$1,000 per day of unregistered practice. HBRA §§ 4.5-501 and 4.5-502. In addition, the HBRA provides that the Unit may deny registration to an applicant, reprimand a registrant, suspend or revoke a registration, or impose a civil penalty if the Unit determines that the applicant or registrant has engaged in any of the specified practices stated in HBRA §4.5-308.

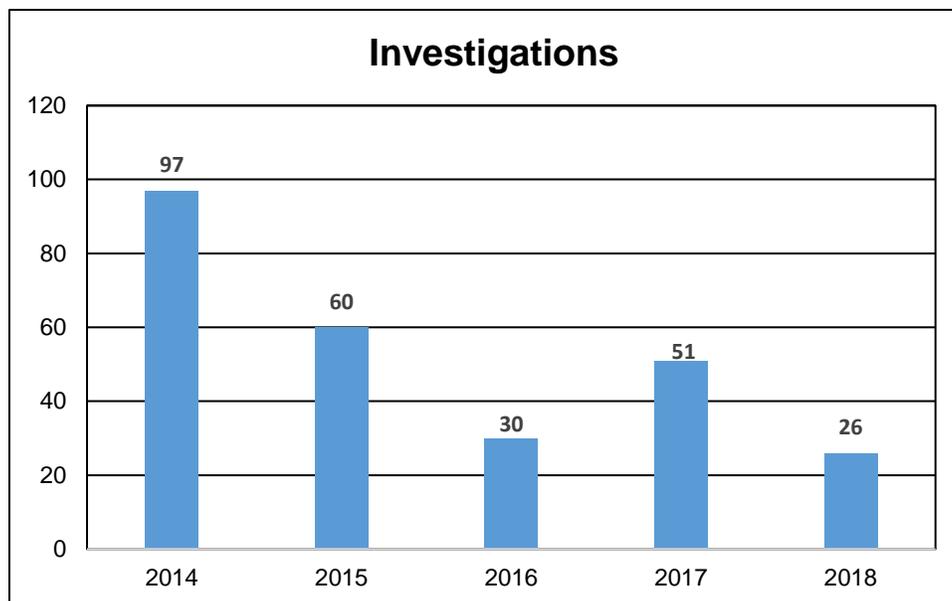
The Unit opened 26 investigations between July 1, 2017 and June 30, 2018 after receiving reports of unregistered builders or violations of the Home Builder Registration Act, the Consumer Protection Act, the New Home Warranties Act, or violations of the laws governing deposits on new homes. Including matters that were still pending at the end of the prior fiscal year, 12 investigations resulted in settlements; 13 resulted in an enforcement action to deny, suspend, or revoke registration; and 16 remain under continuing investigation as of June 30, 2018.

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The Unit receives information from many sources, including consumers, other builders, subcontractors, and permit offices. The results of some of the Unit's enforcement actions are summarized as follows:

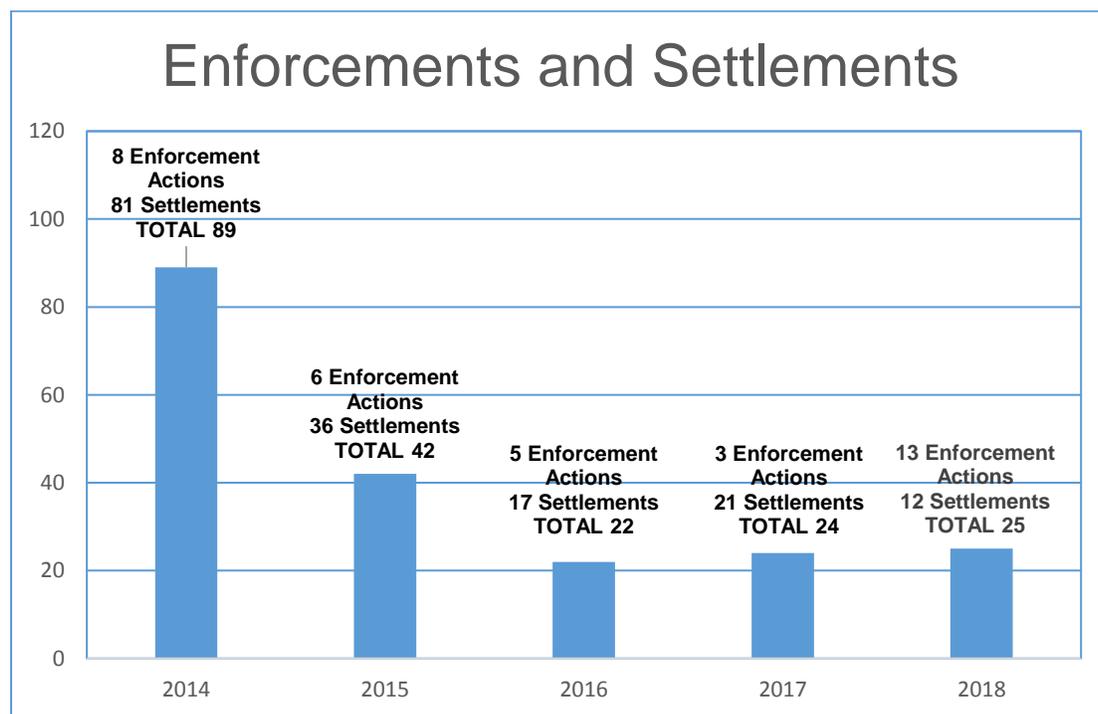
- The Home Builder Registration Unit reached a settlement with a builder from Fairfax, Virginia, resolving allegations that the builder acted as a home builder in Maryland while not registered as a new home builder in the State of Maryland, presented the home builder registration number of another home builder as its home builder registration number, falsely represented itself as a registered home builder, failed to provide required contract disclosures, and made false statements in its application to register as a home builder. The settlement required the builder and its principals to pay a civil penalty of \$1,000 and costs of \$500. The settlement also required the builder to comply with all registration requirements prior to being registered, submit consumer claims to binding arbitration with the Consumer Protection Division's Arbitration Program, and post a performance bond of \$500,000.
- The Home Builder Registration Unit reached a settlement with a builder from Severn, Maryland, resolving allegations that the builder acted as a home builder in Maryland while not registered as a new home builder in the State of Maryland. The settlement required the builder and its principal to pay a civil penalty of \$1,000 and costs of \$500. The settlement also required the builder to comply with all registration requirements prior to being registered, submit consumer claims to binding arbitration with the Consumer Protection Division's Arbitration Program, and post a performance bond of \$150,000.
- The Home Builder Registration Unit reached a settlement with a builder from Walpole, New Hampshire, resolving allegations that the builder acted as a home builder in Maryland while not registered as a new home builder in the State of Maryland and failed to provide consumers with required contract disclosures. The settlement required the builder and its principals to pay a civil penalty of \$750 and costs of \$500. The settlement also required the builder to comply with all registration requirements prior to being registered, submit consumer claims to binding arbitration with the Consumer Protection Division's Arbitration Program, and post a performance bond of \$100,000.
- The Home Builder Registration Unit settled with an additional 9 builders to resolve allegations that the companies acted as home builders without having registered with the Unit in violation of the Home Builder Registration Act or engaged in other violations. The companies brought their registrations into compliance, agreed to penalties totaling \$11,500, and agreed to submit any complaints that cannot be resolved through mediation to binding arbitration through the Division's Arbitration program. The builders were located in Anne Arundel, Carroll, Charles, Garrett, Harford, Kent, and Queen Anne's Counties, and the State of Pennsylvania.

The following chart shows the number of Investigations reported in the Annual Reports since 2014.



Source: HBRU

The following chart shows the number of Enforcement Actions reported in the Annual Reports since 2014:



Source: HBRU

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**V. COMMUNICATION WITH BUILDERS AND CONSUMERS****A. OUTREACH TO BUILDERS**

The Unit has continued to correspond with builders to keep them updated about issues affecting them. The Unit provides builders with two months' notice that their registrations will be expiring and provides them with the information and forms they will need to renew their registrations. The Unit also handled numerous builder inquiries by phone and by e-mail about the Home Builder Registration Act's registration and renewal processes and corresponded with builders about the requirements of any amendments to the law.

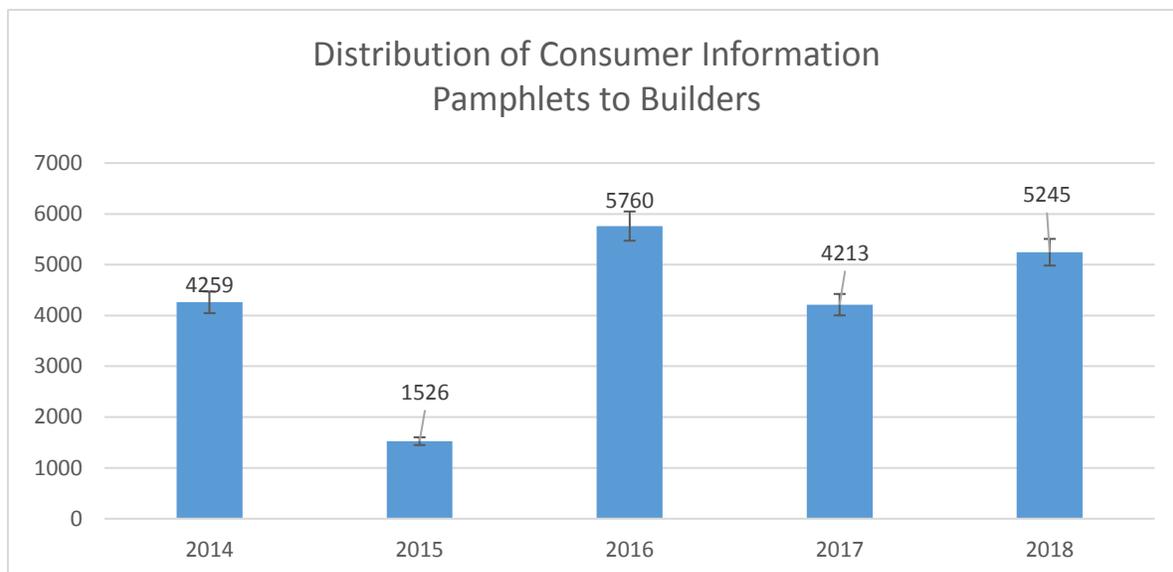
**B. CONSUMER EDUCATION PAMPHLET**

The HBRA requires that the Unit develop a consumer information pamphlet describing the rights and remedies of consumers in the purchase of a new home and providing any other information that the Division considers reasonably necessary to assist consumers in the purchase of a new home. The law further requires that the consumer information pamphlet be given to consumers by builders before they sign a contract to purchase a new home and that the receipt of the consumer information pamphlet be acknowledged in writing. HBRA §4.5-202(c).

The Unit consulted with the industry and initially developed and published a consumer education pamphlet, *BUYING A NEW HOME - Consumer Rights and Remedies Under Maryland Law*. The Unit also drafted and distributed a model form for the consumer to sign to acknowledge receipt of the pamphlet. The Unit regularly updates the pamphlet to reflect changes to the law. A copy of the revised pamphlet is available on our website at <http://www.marylandattorneygeneral.gov/Pages/CPD/Homebuilder/default.aspx>

As of June 30, 2018, the Unit had distributed a total of 272,948 consumer information pamphlets to builders. Between July 1, 2017 and June 30, 2018, the Unit distributed 5,245 pamphlets to builders.

The following chart shows the number of Consumer Information Booklets distributed to Builders since 2014:



Source: HBRU

### C. HBRU WEBSITE

The Home Builder Registration Unit has maintained and updated its website to make information readily available to consumers, builders, and permit offices. The website is a significant mode of outreach and is an educational resource for both consumers and builders. The website provides consumers, permit offices and others the ability to search for builders either by the name of the builder or by registration number. The website address is:

<http://www.marylandattorneygeneral.gov/Pages/CPD/Homebuilder/default.aspx>.

On the website can be found:

- Information about the Home Builder Registration Unit, the Home Builder Registration Act, and the responsibility of builders and sales representatives pursuant to the Act.
- A list of currently registered builders that can be searched either by builder name or by registration number.
- Registration materials including all the registration forms. Builders and sales representatives are able to register and renew their registrations over the Internet.
- The Home Builder Registration Act and other applicable laws, and updates to those laws.

- The consumer information pamphlet developed by the Home Builder Registration Unit, *BUYING A NEW HOME - Consumer Rights and Remedies Under Maryland Law*.
- The Builder New Home Disclosure Form.
- A sample Surety Bond and Letter of Credit that builders can use for the protection of consumer deposits.
- Previous annual reports of the Home Builder Registration Unit.

#### VI. **COORDINATION WITH LOCAL PERMIT OFFICES**

Permit offices play a pivotal role in implementing the Home Builder Registration Act. First, the building and permits department of a county may not issue a permit for home building unless the permit includes the home builder registration number of a registrant. HBRA § 4.5-601. This is the critical first line of defense against unregistered builders. Second, local permit offices are required to notify the Unit about any builder who fails to correct a building code violation within a reasonable period of time.

The Unit has communicated regularly with local and municipal permit offices across the state. Permit offices are able to check the Unit's website to find out if a builder applying for a permit is registered. The Unit also coordinates with local permit offices regarding the payment of fees by builders to fund the Home Builder Guaranty Fund.

#### VII. **EVALUATING CONSUMER AND BUILDER DISPUTE RESOLUTION**

Between July 1, 2017 and June 30, 2018, the Mediation Unit of the Consumer Protection Division handled 106 written consumer complaints filed against 88 different home builders. When a consumer complaint is filed with the Consumer Protection Division, a mediator from the Mediation Unit contacts both the builder and consumer and assists them in resolving their dispute. A mediated agreement is possible only if both parties can agree upon mutually acceptable terms. A mediation is considered successful if it results in an agreement. The Division also offers arbitration at no cost to the parties if the builder and consumer are unable to resolve the complaint through mediation and both the builder and consumer agree to submit their dispute to arbitration. Effective January 1, 2009, consumers who are unable to resolve their complaints through mediation are able to submit their claims to the Home Builder Guaranty Fund.

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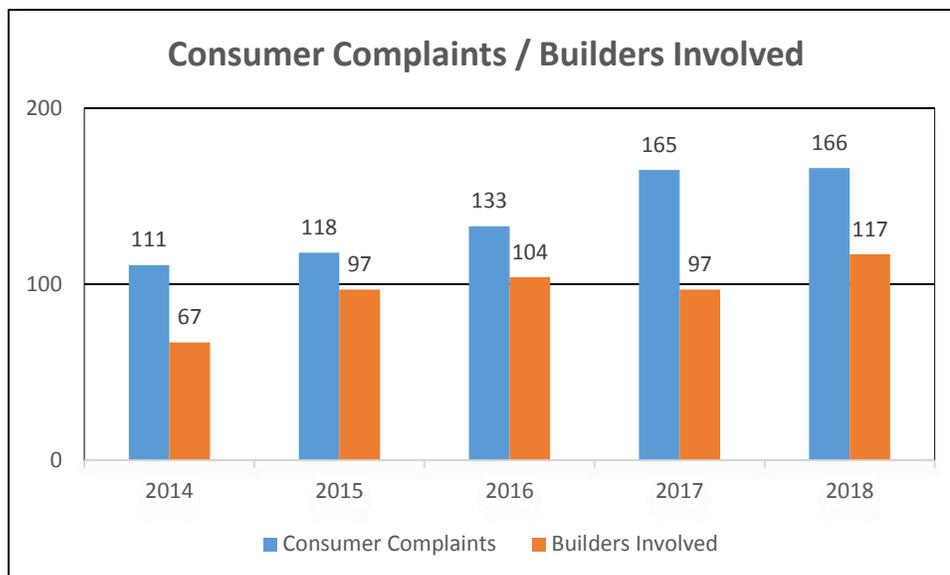
Of the complaints received by the Division's Mediation Unit, 67% of the complaints were mediated, and of those 8% resulted in arbitration. Overall, 6% were filed for information only; 12% were acknowledged by the businesses against which the complaints were filed, 61% were sent to the Guaranty Fund for possible claims; and 8% had other miscellaneous resolutions. 34 (32%) of the complaints received by the Division resulted in positive relief for consumers, such as the defects being corrected by the builder or money being paid to the consumer. The total amount of money or savings obtained for consumers in these complaints was \$105,099.00.

The 106 written complaints raised the following issues:

- *Construction Defect Issues* (55);
- *Incomplete Construction* (9), including disputes between the builder and owner about whether construction had been completed;
- *Contract Disputes* (10);
- *Misrepresentation Claims* (14), including claims that the finished home was not constructed in the manner promised by the builder;
- *Warranty Issues* (5); and
- *Deposit Issues* (13), including consumers seeking return of their deposits after being denied financing or withdrawing from their contracts for other reasons.

Consumers also filed complaints against builders with the Montgomery County Office of Consumer Protection and with the Howard County Office of Consumer Affairs. Between July 1, 2017 and June 30, 2018, there were 66 complaints filed in Montgomery County. In Howard County, 6 were handled during this period.

The following chart shows the number of Consumer Complaints and the number of builders involved in those complaints by year since 2014:



Source: HBRU

### VIII. **WARRANTY PROGRAM**

New Home Warranty Security Plans are required to register with the Home Builder Registration Unit. There are 7 third-party warranty plans approved for operation in Maryland. The Unit requests information from each plan concerning their operations and claims experience to monitor compliance with the requirements of Maryland law.

In calendar year 2017, the 7 approved plans reported a total statewide enrollment of 54,702 homes. Also, in 2017 the warranty plans enrolled 7,065 new homes, generating \$2,335,913 in revenue. The plans reported a total of 97 consumer claims for warranty coverage in 2017, with 17 claims approved for coverage and 65 claims being denied. The warranty plans reported that 6 claims were resolved without action by the plan. The warranty plans settled 17 approved claims by making payments to the consumers.

New Home Warranty Security Plans are required to notify the Home Builder Registration Unit of each decision to deny warranty coverage for a claim or any part of a claim. From July 1, 2017 to June 30, 2018, the Unit received notice of 39 denied warranty claims. The claims that were denied are categorized with the plan's response as follows:

- *Structural Defects* (14), including the plan's claim that the defect did not meet the plan's definition of a structural defect (10) and warranty coverage expired (4);

- *Material/Workmanship Defects* (25), including the plan's claim that the defect did not meet the plan's definition of a structural defect (1), warranty coverage expired (20), and no defect under plan performance standard (4);
- *Equipment/Appliance/Fixture Defects* (0); and
- *Plumbing/Electrical/HVAC* (0).

**Table of Reported Claims Since 2016**

Type of Claim	Claims Denied in FY 2016	Claims Denied in FY 2017	Claims Denied in FY 2018
Structural Defects	26	30	14
Material/Workmanship Defects	26	19	25
Equipment/Appliance/Fixture Defects	3	1	0
Plumbing/Electrical/HVAC Defects	1	0	0

Note: The 65 denied claims that the warranty plans reported were for the 2017 calendar year (January 1, 2017 to December 31, 2017), while the 39 denied claim notices the Unit received were during the fiscal year (July 1, 2017 to June 30, 2018).

## IX. **HOME BUILDER GUARANTY FUND**

During the 2008 session, the General Assembly created a Home Builder Guaranty Fund to protect buyers of new homes who purchase a new home from a registered home builder and suffer an actual loss as the result of:

- Incomplete construction of a new home;
- Breach of an express or implied warranty;
- Failure to meet construction standards or guidelines; or
- Failure to return a deposit or other payment to which the home buyer is entitled.

The Guaranty Fund applies only to contracts entered into after January 1, 2009.

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The Division is required to maintain the Guaranty Fund at a level of at least \$1,000,000. The Guaranty Fund is funded through a \$50 fee to be paid by home builders to the permit office together with the application for a permit for a new home. In the case of a multi-family dwelling, such as a condominium, the Guaranty Fund fee must be paid for each unit to be constructed. The permit offices remit the fees to the Division monthly and may retain an administrative fee of not more than 2 percent. The balance of the Guaranty Fund is currently maintained in an amount consistent with the statutory requirement.

Claims against the Guaranty Fund are limited to not more than \$50,000 to one claimant or not more than \$300,000 to all claimants against a single registered builder. If a consumer is awarded payment from the Guaranty Fund, the builder's registration is suspended until the Guaranty Fund has been repaid.

Under the Guaranty Fund law, consumers and builders are encouraged to resolve any issues voluntarily before a claim against the Guaranty Fund can proceed. First, consumers must give the builder notice and an opportunity to remedy any defects with the new home. Second, if the consumer is still not satisfied, the Division's Mediation Unit will attempt to resolve the matter through mediation between the consumer and the builder. If the Division's mediation efforts are unsuccessful, the consumer may proceed with a claim against the Guaranty Fund.

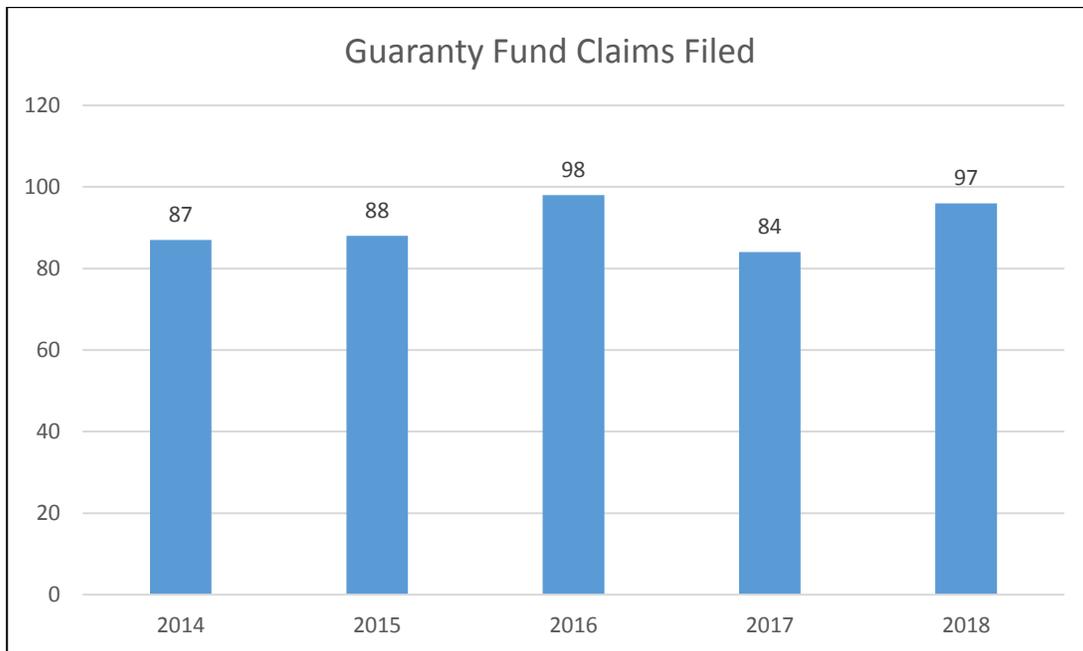
From July 1, 2017 until June 30, 2018:

- 97 claims were filed with the Guaranty Fund. 10 were settled through mediation with consumers receiving awards totaling \$99,261 and in 5 claims the builders agreed to repair the defective work.
- 1 claim was referred to arbitration and resulted in the builder agreeing to stipulated repairs.
- 21 claims were scheduled for hearings at the Office of Administrative Hearings. A Final Order was issued resolving 3 claims, awarding Guaranty Fund relief to the claimants totaling \$120,000. 11 claims are pending issuance of a Final Order by the Consumer Protection Division and 7 claims are pending issuance of proposed decisions from the Office of Administrative Hearings.
- A Final Order was issued resolving 1 claim of less than \$7,500 without a hearing at the Office of Administrative Hearings; no Guaranty Fund relief was awarded.
- 13 claims were determined not to be eligible for relief from the Guaranty Fund, and 6 were closed because the claimants failed to provide documentation to support their claims.

- 30 claims remain in the investigation stage.
- Final Orders were issued resolving 10 claims that were pending a proposed decision from the Office of Administrative Hearings or a Final Order by the Consumer Protection Division prior to the fiscal year. The Final Orders awarded Guaranty Fund relief in the 10 claims in the amount of \$452,584.51, which included one claim based on an arbitration award with findings that supported the consumer’s right to recover for an actual loss in the amount of \$50,000.

From July 1, 2017 until June 30, 2018, the Guaranty Fund paid a total of \$399,999.80 to claimants for actual losses resulting from acts or omissions by a registrant in relation to new home construction and the registrations of 3 builders were suspended as a result.

The following chart shows the number of Guaranty Fund claims reported in the Annual Reports since 2014:



Source: HBRU

**X. LEGISLATIVE CHANGES AFFECTING HOME BUILDERS**

During the 2018 session, the General Assembly enacted the following laws affecting home builders, which became effective October 1, 2018:

- **Chapter 346 (HB 77)/Chapter 347 (SB 258): *Condominiums: Unenforceability of Certain Provisions:*** This bill makes unenforceable a provision of a condominium

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declaration, bylaw, or contract for the initial sale of a unit to a member of the public that:

- Shortens the statute of limitations applicable to a claim;
  - Waives the application of the discovery rule to a claim;
  - Requires a unit owner or Council of Unit Owners to assert a claim subject to arbitration within a period of time that is shorter than the statute of limitations applicable to that claim; or
  - Otherwise operates to prevent a unit owner or Council of Unit Owners from asserting a claim within the applicable limitations period.
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- **Chapter 778 (HB 239): *Prince George's County: Advertising of Community Amenities*:** This bill requires a home builder to make a copy of any recreational facilities agreement recorded with Prince George's County available to prospective purchasers in the sales or management office of the community development and display the following in the sales or management office:
    - The amenities listed in the recreational facilities agreement;
    - A detailed site plan and the permit number for each amenity; and
    - The expected completion date of each amenity.
  
  - **Chapter 680 (HB 1481)/Chapter 681 (SB 648): *New Home Sales: Information on Energy Efficient Options*:** This bill provides that, in a development that contains 11 or more new homes, prior to the execution of a contract for the initial sale of a new home, a new home builder shall provide the purchaser with written information about any energy-efficient options that are available for installation in the home, including that tax credits may be available for such options. A contract for the initial sale of a new home in a development that contains 11 or more new homes shall contain an acknowledgement that the purchaser was provided the written information about energy-efficient options.